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Message Text

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ACTION SS-30

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /031 W
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O R 050915Z JUL 74
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AMEMBASSY JIDDA IMMEDIATE
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USMISSION OECD PARIS
AMEMBASSY TOKYO
AMEMBASSY TRIPOLI
AMEMBASSY VIENNA

S E C R E T SECTION 1 OF 3 TEHRAN 5509

EXDIS

BEIRUT PASS BAGHDAD

E.O. 11652: GDS
TAGS: ENRG, SA
SUBJ: IRAN'S VERSION OF THE QUITO OPEC MEETING

REF: A. STATE 139842 B. JIDDA 3802

SUMMARY: JAMSHID AMOUZEGAR, IRAN'S DELEGATE TO THE RECENT QUITO OPEC MEETING, CLAIMS IRAN PLAYED MODERATING ROLE IN ARBITRATING BETWEEN SAUDI ARABIA WHO ARGUED FOR REDUCTION IN OIL PRICES AND OTHER OPEC MEMBERS WHO WANTED SIGNIFICANT INCREASE. HE ALSO DERIEDED ZAKI YAMANI'S VERSION OF THE QUITO MEETING AS IT HAS APPEARED IN THE PRESS AND CLAIMS YAMANI REVERSED HIMSELF ON THE QUESTION OF PRICES DURING THE MEETING. IN TWO INSTANCES HE STATED
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FLATLY YAMANI WAS A LIAR. END SUMMARY.

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1. MORNING OF JULY 4 DCM MET WITH IRAN'S MINISTER OF INTERIOR, JAMSHID AMOUZEGAR, WHO WAS IRAN'S DELEGATE TO THE JUNE MEETING OF OPEC MINISTERS IN QUITO. DCM OPENED SUBSTANTIVE PART OF THE CONVERSATION BY OBSERVING WE WERE SOMEWHAT CONFUSED BY PRESS REPORTS OF WHAT TRANSPIRED AT QUITO AND WOULD APPRECIATE HIS COMMENTS. AMOUZEGAR REPLIED THAT TONE OF MEETING AND DIVISION BETWEEN SAUDI ARABIA AND OTHER OPEC MEMBERS WAS SET BY ZAKI YAMANI'S ARRIVAL IN QUITO ABOARD AN EXXON COMPANY PLANE. HE SAID SEVERAL OPEC MINISTERS WONDERED ALOUD TO HIM WHY YAMANI SO PUBLICLY ASSOCIATES HIMSELF WITH COMPANY INTERESTS. HE MUSED YAMANI WAS NOT PARTICULARLY SELECTIVE ABOUT HIS COMPANY ASSOCIATIONS SINCE HE LEFT QUITO ABOARD A MOBIL COMPANY PLANE. (INTERESTINGLY WE LEARN FROM OTHER SOURCES THAT NYT REPORTER JUAN DE ONIS AND MEES EDITOR IAN SEYMOUR WERE ALSO ABOARD. WHETHER THEY WERE SOURCE OF "LEAKS" YAMANI COMPLAINED ABOUT - JIDDA 3802 - WE DO NOT KNOW.)

2. MOVING TO THE SUBSTANCE OF THE QUITO MEETING, AMOUZEAGR SAID THAT THE INITIAL POSITION OF THE PARTICIPANTS WAS DIVIDED ON ONE SIDE BY ALL OF THE ARAB MEMBERS URGING THAT THE OPEC ECONOMIC COMMITTEE RECOMMENDATIONS BE ACCEPTED. INTER ALIA, THIS WOULD MEAN AN IMMEDIATE INCREASE IN OIL PRICES OF 63 CENTS A BARREL. ON THE OTHER SIDE WAS SAUDI ARABIA URGING A REDUCTION IN CURRENT OIL PRICES. HE SAID THAT IF YAMANI CLAIMED THAT HE HAD ARGUED FOR A $2 PER BARREL REDUCTION HE WAS A LIAR. YAMANI HAD PUT NO RPT NO FIGURE ON THE AMOUNT OF REDUCTION HE URGED ON OPEC MEMBERS. IARN, ACCORDING TO AMOUZEGAR, ON INSTRUCTIONS FROM THE SHAH, URGED COMPROMISE.

3. AS THE DEBATE UNFOLDED YAMANI WAS PRESSED BY ARAB MEMBERS TO JUSTIFY HIS STAND. AMOUZEGAR SAID THAT YAMANI HAD THREE SUCCESSIVE LINES OF DEFENSE. FIRST HE ARGUED THAT HIGH OIL PRICES WERE FORCING THE WESTERN WORLD TO SEARCH URGENTLY FOR ALTERNATIVE SOURCES OF ENERGY AS IT WAS NOW MORE ECONOMICAL TO DO SO. THIS YAMANI PLEADED, WAS NOT IN SAUDI ARABIA'S INTEREST. IF THIS SEARCH WAS SUCCESSFUL, VAST AMOUNTS OF SAUDI OIL MIGHT REMAIN LOCKED IN THE GROUND FOREVER. AMOUZEGAR SAID THAT YAMANI'S ARAB "BROTHERS" JUMPED ALL OVER HIM ON THIS ARGUMENT, POINTING OUT THAT NONE OF THEM WERE SIMILARLY WELL PLACED WITH REGARD TO RESERVES. ON THE CONTRARY, THEY ARGUED (AND AMOUZEGAR IMPLIED THAT IRAN JOINED IN THIS ARGU-

MENT) IT WAS THEIR DESIRE AND INTENTION TO GALVANIZE THE WESTERN WORLD INTO A REALISTIC APPRECIATION OF THE TRUE VALUE OF OIL, ITS IRREPLACEABILITY, AND A SEARCH FOR ALTERNATIVE SOURCES OF ENERGY. AS THIS VIEW WAS TAKEN UP, REPEATED AND ENDORSE AROUND THE TABLE, YAMANI FELL SILENT.

4. HIS NEXT ARGUMENT IN FAVOR OF A REDUCTION IN THE PRICE OF OIL RELATED TO THE HAVOC IT WAS CAUSING IN WESTERN ECONOMIES. LOWER

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EMPLOYMENT, LOWER PRODUCTION, AND ACCELERATED INFLATION WERE THE CONSEQUENCE OF HIGH OIL PRICES TO THE WEST. AMOUZEGAR SAID THAT YAMANI WAS VIRTULLY LAUGHED OUT OF COURT AS MEMBER AFTER MEMBER CITED OTHER FACTORS CONTRIBUTING TO INFLATION IN THE WEST AND CLAIMED THAT HIGHER OIL PRICES CONTRIBUTED ONLY ONE PERCENT TO THIS INCREASE. IN THIS CONTEXT FAMILIAR ARGUMENTS WERE AGAIN BROUGHT UP ABOUT HOW OIL PRICES HAD BEEN HELD CONSTANT FOR OVER A DECADE IN THE FACE OF RAMPANT INFLATION IN THE WEST, THE INJUSTICE OF IT ALL AND THE PRODUCERS RIGHT TO CATCH UP WITH WHAT WAS THEIR LONG DENIED DUE.
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INFO OCT-01 ISO-00 SSO-00 NSCE-00 /031 W
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AMEMBASSY VIENNA

S E C R E T SECTION 2 OF 3 TEHRAN 5509

EXIDS

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5. AFTER THIS ROUND OF DEBATE IN WHICH YAMANI ONCE AGAIN FOUND HIMSELF TOTALLY ISOLATED, HE PICKED UP THE THREAT OF HIS THIRD ARGUMENT. AMOUZEGAR SAID THAT YAMANI HAD TOLD HIM EARLY ON, VERY PRIVATELY AND CONFIDENTIALLY, THAT SAUDI ARABIA WAS IN THE MIDST OF NEGOTIATIONS WITH ARAMCO FOR A 100 PERCENT TAKEOVER OF ARAMCO. SEEING THAT HIS OTHER ARGUMENTS FOR HOLDING OR REDUCING THE PRICE LINE WERE TO NO AVAIL, YAMANI SPRUNG THIS LINE OF ARGUMENT IN A
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CLOSED SESSION OF MINISTERS ONLY. THIS TACK WAS ENTIRELY DIFFERENT AND IN CONTRADICTION TO HIS EARLIER ARGUMENTS FOR PRICE REDUCTION. HE TOLD THE ASSEMBLED THAT THE NEW ARRANGEMENT HE WAS WORKING OUT WITH ARAMCO WOULD PROVIDE FOR BUY BACK AT "MARKET PRICE". THE OTHER DELEGATES PRESSED YAMANI AS TO WHAT HE MEANT BY "MARKET PRICE". HE REPLIED THAT IT MEANT PETROMIN PRICE. PRESSED FURTHER, HE SAID THAT THE PETROMIN PRICE WOULD BE 93 PERCENT OF POSTED PRICE.

6. AT THIS POINT IT BECAME A LITTLE UNCLEAR FROM AMOUZEGAR'S ACCOUNT AS TO THE PRECISE SEQUENCE OF EVENTS. APPARENTLY, HOWEVER, THE MEETING WAS MOVING TOWARD A GENERAL CONCENSUS THAT ANY PRICE INCREASE AT THE MOMENT OUGHT TO BE HELD TO A TOKEN AMOUNT WHICH THE OIL COMPANIES COULD EASILY ABSORB ON THEIR OWN ADMISSION OF WHAT THEIR PROFITS HAD BEEN RECENTLY. AMOUZEGAR CLAIMED CREDIT FOR MOVING THE MEETING TOWARD THIS CONCENSUS. HE SAID THAT THE SHAH FELT SOME SYMBOLIC INCREASE WAS ESSENTIAL TO REMIND THE WESTERN WORLD THAT OIL PRODUCING COUNTRIES COULD NOT REMAIN INDIFFERENT TO CONTINUED INFLATION IN THE WEST. APPARENTLY AT THIS POINT YAMANI PRESSED HIS ARGUMENT FOR NO INCREASE IN PRICE AND PLEADED FOR OPEC MEMBERS TO AWAIT THE OUTCOME OF SAUDI'S NEGOTIATIONS WITH ARAMCO. AMOUZEGAR SAID THAT YAMANI TOLD THE ASSEMBLED THAT THE BENEFITS OF THE DECISION THEY WERE MOVING TOWARD WAS "PEANUTS" IN COMPARISON TO WHAT THEY WOULD GET AS THE CONSEQUENCE OF A NEW SAUDI-ARAMCO AGREEMENT. ALL MEMBERS SAID THEY WOULD AWAIT WITH INTEREST THE RESULTS OF THIS AGREEMENT BUT IN THE MEANTIME FELT THEY MUST VOTE A TOKEN 2 PERCENT INCREASE IN ROYALTIES. AMOUZEGAR CONCLUDED THAT THE ONLY REASON SAUDI ARABIA DISASSOCIATED ITSELF FROM THIS DECISION WAS BECAUSE IT EXPECTED TO DO EVEN BETTER IN WORKING OUT A NEW AGREEMENT WITH ARAMCO.

8. AMOUZEGAR SAID THAT WHEN HE CABLED THE SHAH ABOUT THE PROSPECTIVE NEW ARAMCO ARRANGEMENT THE SHAH REPLIED THAT HE DID NOT BELIEVE IT. NEITHER DOES AMOUZEGAR. HE SAID THE REASON IS VERY SIMPLE - SUCH AN ARRANGEMENT WOULD MEAN THAT THE LANDED COST OF SAUDI OIL IN THE US WOULD BE ABOUT $14.00 A BARREL. THIS IS $2.00 OVER THE PRESENT PRICE AND THE OIL COMPANIES COULD NOT ABSORB THIS INCREASE AND THE

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USG WOULD NOT PERMIT THEM TO PASS IT ON TO THE CONSUMER. THUS THE ARAMCO COULD NOT POSSIBLEY AGREE TO SUCH A DEAL.

9. THE DCM PRESSED AMOUZEGAR ABOUT THE POSITION VARIOUS DELEGATES
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HAD TAKEN ON OIL PRICE INCEASES AND SAID THAT HE HAD HEARD SOME WERE ARGUING FOR AN IMMEDIATE INCREASE IN POSTED PRICE TO $15.00 A BARREL; ALSO THAT THERE HAD BEEN STRONG SENTIMENT IN FAVOR OF A RETROACTIVE SURPLUS PROFITS TAX. AMOUZEGAR DENIED THERE HAD BEEN ANY TALK OF SUCH A DRAMATIC INCREASE IN POSTED PRICE AND SAID THAT ANYONE WHO CLAIMED OTHERWISE WAS A LIAR. HE ACKNOWLEDGED, HOWEVER, THAT THERE WAS INDEED SENTIMENT FOR A "SURPLUS PROFITS TAX" IN KEEPING WITH OPEC'S ECONOMIC COMMITTEE RECOMMENDATIONS.

10. DCM THEN ASKED AMOUZEGAR ABOUT STORIES THAT THE SUPPLY-DEMAND SITUATION MAY BE SHIFTING IN THE CONSUMER'S FAVOR. HE REPLIED THAT SUCH REPORTS WERE "BALONEY", EVERYBODY INCLUDING ZAKI YAMANI KNEW THIS, AND CITED A RECENT MASSACHUSETTS INSTITUTE OF TECHNOLOGY STUDY DEBUNKING THE SUPPLY-DEMAND PROJECTIONS "OF YOUR OWN ENERGY OFFICE". HE SAID THAT MANY FIELDS IN PRODUCER COUNTRIES WERE BEING DEPLETED AND PRODUCTION IN OTHERS WOULD HAVE TO BE CURTAILED IF THEY WERE TO BE EXPLOITED TO MAXIMUM ADVANTAGE. FURTHER THE LEAD TIME TO INCREASE OIL PRODUCTION SIGNIFICAMLY WAS AT LEAST 2 OR 3 YEARS. IN HIS VIEW THERE IS NO WAY THE CURRENT SUPPLY-DEMAND PICUTRE WAS GOING TO CHANGE SIGNIFICATNLY OVER THE NEXT 5 YEARS. ANYONE THAT CLAIMED DIFFERENTLY, HE SAID, DID NOT KNOW WHAT HE WAS TALKING ABOUT. ASKED ABOUT A CONSCIOUS PRODUCER COUNTRY DECISION TO REDUCE PRODUCTION IF CURRENT OIL PRICES SEEMED THREATENED, AMOUZEGAR WAFFLED AND REPEATED HIS STORY ABOUT OIL FIELD DEPLETION AND THE NEED FOR THE ECONOMIC EXPLOITATION OF OIL RESERVES.

11. DCM EXPRESSED SOME BEWILDERMENT OVER SEEMINGLY CONTRADICTORY POSITIONS VARIOUS PRODUCER COUNTRIES SEEM TO HOLD, AND ASKED AMOUZEGAR WHY IRAN ALWAYS SEEMED TO COME OUT THE VILLAIN IN THE PUBLIC EYE. HE REPLIED THAT UNFORTUNATELY THE STORY THE PUBLIC GOT (MAINLY FROM YAMANI) WAS ONLY HALF TRUE. HE SAID THAT IT WAS ONLY FAIR AND CORRECT TO ACKNOWLEDGE THAT SAUDI ARABIA DURING THE OPEC MEETING IN TEHRAN IN DECEMBER HAD ARGUED FOR PRICES LOWER THAN THOSE ADVOCATED BY OTHER OPEC MEMBERS. WHAT YAMANI HAD FAILED TO MENTION, HOWEVER, WAS THE MODERATING ROLE IRAN HAD PLAYED BETWEEN SAUDI ARABIA AND ITS MORE AGGRESSIVE ARAB PARTNERS WHO WANTED TO INCREASE THE POSTED PRICE TO $14 A BARREL IN DECEMBER. HE SAID THAT IRAN HAD TAKEN THE POSTIION THAT OIL PRICES OUGHT TO HAVE SOME RATIONAL RELATIONSHIP TO AN OBJECTIVE FACT AND THAT NEITHER THE SAUDI ARGUMENTS FOR A POSTED PRICE OF $9 A BARREL OR OHER ARAB
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PRODUCER ARGUMENTS FOR A $14 PER BAREL POSTED PRICE HAD THIS QUALITY. IRAN HAD ARGUED, THEREFORE, THAT OIL PRICES OUGHT TO BE LINKED DIRECTLY TO THE COST OF ALTERNATIVE SOURCES OF ENERGY. FROM INFORMATION IRAN HAD ABOUT STUDIES IN THE UNITED STATES ON THIS SUBJECT, $7.50 A BARREL WAS AT THE LOW END OF A RANGE OF COSTS FOR ALTERNATIVE SOURCES OF ENERGY AND THIS WAS THE PRICE IRAN HAD SUCCESSFULLY URGED ON ITS OPEC COLLEAGUES. HE WENT ON TO ADD THAT THE TRANSPARENCY OF SAUDI ARABIA'S POSITION ON OIL PRICES HAD BEEN COMMENTED ON IN A RECENT TIME ARTICLE WHICH POINTED OUT THAT IT WAS IRONIC THAT SAUDI ARABIA HAD ARGUED VIGOROUSLY FOR LOWER OIL PRICES WHEN AT THE SAME TIME ITS RECENT AGREEMENT WITH ARAMCO ON 60-40 PARTICIPATION HAD RESULTED IN INCREASED RETURN TO SAUDI ARABIA OF $1 A BARREL. HE SEEMED BEMUSED AS TO WHY THIS SIMPLE FACT SEEMS TO HAVE BEEN OVERLOOKED IN WESTERN COUNCILS.
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12. IN ANSWER TO A QUERY ABOUT THE EEC'S DEMARCH TO OPEC AGAINST INCREASING OIL PRICES, AMOUZEGAR SAID THAT IT WAS NOT ON THE QUITO AGENDA. NEVERTHELESS, HE SAID KUWAIT HAD RAISED THE ISSUE AND URGED THAT A STRONG REBUTTAL BE SENT. HE ARGUED THAT IT SHOULD BE IGNORED BECAUSE IT WAS SELF-SERVING AND TOOK NO ACCOUNT OF OPEC LEGITIMATE INTERESTS. HIS VIEW, HE SAID, CARRIED THE DAY. WITH RESPECT TO THE QUESTION OF COMPANY TRANSPARENCY, AMOUZEGAR SAID THAT IT WAS NOT DISCUSSED AND IMPLIED THAT FEW IF ANY PRODUCER
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COUNTRIES HAD BEEN GIVEN THE INFORMATION IRAN HAD BEEN GIVEN ABOUT COMPANY COSTS AND PROFITABILITY. HE SAID THAT SHELL HAD COME IN TO SEE HIM BEFORE HE LEFT FOR QUITO AND LAID THEIR CARDS ON THE TABLE. THEIR BALANCE SHEETS SHOWED THAT THEY WERE MAKING A PROFIT OF 70 CENTS A BARREL. HE SAID HE ASKED WHETHER HE SHOULD MAKE THIS KNOWN TO HIS OPEC COLLEAGUES. SHELL TOLD HIM THAT THIS INFORMATION WAS STRICTLY FOR IRAN'S OWN USE. HE SURMISED THAT SHELL WAS RELUCTANT TO HAVE THIS INFORMATION MADE KNOWN BECAUSE IT WOULD CERTAINLY AROUSE ARAB DEMANDS FOR AN EVEN LARGER INCREASE IN OIL PRICES SINCE THEY BELIEVED THAT COMPANY PROFIT OF 35 CENTS A BARREL WAS ALL THAT WAS JUSTIFIED.

13. IN AN AUDIENCE THE AMBASSADOR HAD WITH THE SHAH ON JULY 2 OIL WAS ALSO TOUCHED ON. THE SHAH EVINCED SOME IRRITATION OVER IRAN'S CONTINUALLY BEING PORTRAYED AS THE LEADER IN PUSHING PRICES EVER HIGHER. HE SAID THAT IT WAS SAUDI ARABIA, NOT IRAN, WHO HAD INSTITUTED THE OIL EMBARGO LAST YEAR BRINGING ON AN ABRUPT AND DRAMATIC SHIFT IN THE SUPPLY-DEMAND SITUATION. HE SAID HE NATURALLY TOOK ADVANTAGE OF THIS AND ASKED RHETORICALLY WHAT COULD HE HAVE BEEN EXPECTED TO DO AS A LEADER OF A MAJOR OIL PRODUCER COMPANY UNDER THE CIRCUMSTANCES. NEVERTHELESS, HE SAID IRAN HAD PLAYED A MODERATE AND RESPONSIBLE MIDDLE OF THE ROAD ROLE AND HAD NOT BEEN EXTREMIST IN ANY SENSE. HE WENT ON TO SAY THAT YAMANI HAD URINED HIMSELF WITH OTHER OPEC MEMBERS. AS FAR AS SAUDI ARABIA WAS CONCERNED HE SAID THAT HE HAD STRONGLY RECOMMENDED TO EXXON CHAIRMAN OF THE BOARD, KAN JAMISON, AT SAN MORITZ LAST WINTER THAT ARAMCO MAKE THE SAME ARRANGEMENT WITH SAUDI ARABIA AS IRAN HAD WITH THE CONSORTIUM. HE SAID "I POINTED OUT TO HIM ARAMCO NO LONGER HAD CONTROL OVER PRICES OR OFFTAKE SO WHY NOT BECOME A SIMPLE CUSTOMER FOR SAUDI ARABIAN OIL".

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COMMENT: CLEARLY THE SHAH AND AMOUZEGAR HAVE BEEN STUNG BY THE PUBLIC IMAGE IRAN HAS THAT IT IS THE LEADING VILLAIN IN THE OIL PRICE QUESTION. THEIR ACCOUND OF IRAN'S POSITION OBVIOUSLY DIFFERS APPRECIABLY FROM YAMANI'S. WHEREVER THE TRUTH MAY LIE, WE BELIEVE THEY ARE SINCERELY CONVINCED THEIR POSITION IS ECONOMICALLY JUST-IFIED AND SOUND. WE FEEL IRAN WOULD WELCOME A FRANK, FULL AND OBJECTIVE EXCHANGE OF VIEWS ON THIS WHOLE QUESTION. WHILE WE DOUBT THAT SUCH AN EXCHANGE WOULD RESULT IN A DECISION TO REDUCE OIL PRICES, WE CERTAINLY THINK THAT IT WOULD HELP DISPEL THE MIS-UNDERSTANDING AND ACRIMONIOUS EXCHANGES THAT HAVE CHARACTERIZED

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PRODUCER-CONSUMER COUNTRY DIALOGUES SO FAR. AS JIDDA REFTEL ACCURATELY POINTS OUT, HOWEVER, THE ONLY WAY WORLD OIL PRICES WILL BE FORCED DOWN WILL BE THROUGH INCREASED PRODUCTION AND A SHIFT IN THE CURRENT SUPPLY-DEMAND EQUATION.

14. IF THE FOREGOING IS AN ACCURATE ASSESSMENT, WE THINK IT WOULD BE MOST UNWISE TO ENCOURAGE OR PARTICIPATE IN ANY "MINI"PRODUCER-CONSUMER CONFERENCE WHICH RESULTED IN SAUDI ARABIA AND THE UNITED STATES ENDING UP SITTING ACROSS THE TABLE FROM ALL OTHER PRODUCER COUNTRIES.
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